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Soviet Grain Purchases

The USSR has bought substantial quantities of grain in recent weeks.

- o Since May, Soviet purchases have totaled 18-19 million metric tons, of which nearly one-half has been bought from US firms.
- o Buying from the United States this early is unusual--in the past two years Soviet buyers have not begun to place large orders until September or later.

The reasons for lining up supplies so early are unclear.

- o We cannot, however, exclude the possibility that the USSR is planning some action that could, in Moscow's view, precipitate a US embargo.
- o In this connection, [REDACTED] in late May that the LTA might be abrogated--but only if alternate sources of grain could be found and if the move would affect the US election.

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Other factors are more likely to have prompted the early Soviet purchases. If our current estimate of the 1984 grain harvest (190 million tons) holds, the USSR will need to import about 40 million metric tons of grain in the July-June marketing year to achieve 1984 goals for the output of meat and dairy products and to sustain continued growth next year.

- o There is a possibility that the grain crop could be less than 190 million tons.
- o Production of potatoes--a close substitute for grain--is expected to be nearly 10 percent below last year's level, and harvesting of forage crops is running behind the 1983 pace.
- o As a result, import demand could be larger--for example, a grain crop substantially lower than our estimate could boost the import need to more than 50 million tons, the demonstrated level of Soviet logistical capabilities.

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Purchases to Date

The USSR already has purchased 18-19 million tons of grain for delivery during the current marketing year (see attached table).

- o The USSR has been most active in the US grain market, where it has bought 8.6 million tons since early July, most of it for October-December delivery.
- o US traders believe additional sales are likely, including a possible 1-2 million tons of US wheat for post-September delivery.
- o The USSR has also been buying considerable quantities of grain from the European Community (EC); purchases currently stand at about 4 million tons, and some traders expect purchases to total 6 million tons or more.

In addition, the USSR is committed to buy roughly an additional 9 million tons under various long-term agreements with the US, Argentina, Canada, and Brazil.

The early grain purchases will give Moscow some necessary flexibility in the event that harvest deteriorates still further.

- o Port and inland transportation capacity, however, effectively set an upper limit to purchasing. Although Moscow has added substantially to its grain handling capacity in the past few years, sustaining monthly imports above a 4.5-million-ton average--54 million tons for a 12-month period--could seriously strain the system.
- o Moscow may be also inclined to take advantage of low grain prices to rebuild stocks, drawn down by the recent string of poor to mediocre harvests.

Why Buy from the United States?

Even though both world wheat production and stocks are expected to be at or near record levels, less-than-favorable weather conditions in Canada, Argentina, and Australia could prevent these countries from being able to meet both sharp increases in Soviet demand and to maintain exports to other customers. In the last 10 days of July, the official estimates of 1984 Canadian production of wheat and barley dropped by more than 6 million tons.

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Furthermore, non-US supplies of coarse grains will be tight until spring, when grain from the Southern Hemisphere becomes available. The EC is in a position to increase wheat exports by several million tons over last year's level.

On balance, the USSR is likely to rely on the United States for a substantial share of the increment in grain imports in the current marketing year. We consider it unlikely that Moscow will abrogate the US-USSR LTA as was suggested [REDACTED]

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USSR: Grain Purchases for Delivery During
the July-June Marketing Year

(million metric tons)

<u>Country</u>	<u>1983/1984 Purchases</u>	<u>1984/1985</u>		
		<u>Purchases to Date</u>	<u>Additional Commitments under LTAs^a</u>	<u>Total Commitments</u>
United States	10.2	8.6	3.5	12.1
Canada	5.8	5.0	1.5	6.5
Argentina	7.7	1.0	3.0	4.0
EC	3.7	2.5-4.0	0.0	2.5-4.0
Australia	1.5	0.75	0.0	0.75
Other	3.2	0.0	1.0	1.0
Total	32.1	17.9-19.4	9.0	26.9-28.4

^a It is impossible to estimate precisely the quantity of grain the Soviets are committed to buy because of differences between crop years in the northern and southern hemispheres, and market and LTA years. The estimate assumes that deliveries under the various LTAs will be made during the current July-June marketing year, except for Argentina where shipments of coarse grain generally continue into July and August.

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AnnexUS-USSR Long-Term Grain Agreement

The first US-USSR grain agreement was signed in 1976 for a period of five years. The scheduled expiration date was 30 September 1981. Under the terms of this agreement:

- o The USSR was committed to purchase a minimum 6 million tons of US wheat and corn in approximately equal proportions.
- o The USSR could also purchase an additional 2 million tons without additional consultation.
- o Purchases above these quantities would be authorized only after consultation.

In 1981, the agreement was extended for two years and then replaced by a new agreement which was signed in August 1983. Major changes in the new agreement include:

- o The minimum Soviet purchase commitment was increased to 9 million tons of wheat and corn. At least 4 million tons each of wheat and corn had to be bought.
- o Five hundred thousand tons of soybeans or soybean meal could be substituted for 1 million tons of grain.
- o The maximum purchase level without prior consultation was increased to 12 million tons.

Under the first year of the new LTA, which runs from 1 October 1983 to 30 September 1984, the USSR has purchased 12.9 million tons. Of this quantity, 2.5 million tons has been bought since early July. Moscow has lined up more than 6 million tons of grain for delivery during the second year of the agreement which begins 1 October 1984.

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